



STATE OF ARKANSAS
**Department of Finance
and Administration**

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November 15, 2012

The Honorable Mary Anne Salmon, Co-Chair
The Honorable Tommy Lee Baker, Co-Chair
Arkansas Legislative Council
State Capitol
Little Rock, Arkansas 72201

Dear Senator Salmon and Representative Baker:

In accordance with Arkansas Code Annotated §19-4-202 (b) (1), I am submitting our Official General Revenue Forecast for the 2013 – 2015 Biennium. This law states that the Legislative Council shall require from the Chief Fiscal Officer of the State, not later than sixty (60) days prior to the convening of the General Assembly, the budget estimates and recommendations prepared by him. Included in the tables are selected economic assumptions and the details of the updated revenue forecasts for Fiscal Year 2013 and the 2013-2015 Biennium.

Summary of Net Available Revenues:

Actual

- In FY 2012 net available revenues totaled \$4,751.6 million, an increase of \$178.7 million or 3.9% from FY 2011.

Forecast

- For FY 2013 net available revenues are expected to reach \$4,827.0 million, an increase of \$75.4 million, or 1.6 percent from FY 2012 net available. Year-to-date actual growth after four months in the fiscal year has been 2.9 percent above year earlier levels, resulting in \$20.5 million above forecast at that point. The forecast for FY 2013 is revised higher by \$99.5 million or 2.1 percent from the prior forecast. This results in a projected new surplus over a fully-funded budget. Better than expected collections in Income tax, Tobacco, and Gaming contributed to this enhanced view of collections growth. The forecast retains a conservative stance but with updated growth assumptions derived from line-by-line assessment of revenue prospects. The forecast also adjusts for actual growth recorded in FY 2012 as a

base for collection gains.

The forecast is expected to fund all of the allocations of the Revenue Stabilization Law plus \$99.5 million new surplus funds.

- For FY 2014 net available revenues are expected to reach \$4,947.3 million, an increase of \$120.3 million or 2.5 percent above FY 2013.
- For FY 2015 net available revenues are expected to reach \$5,130.2 million, an increase of \$182.9 million or 3.7 percent above FY 2014.

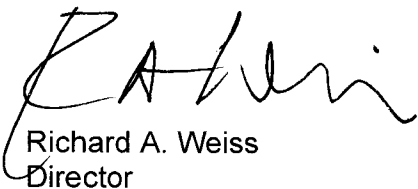
Economic Forecast Assumptions

Economic models employed by the Department of Finance and Administration indicate low inflation and modest but improving recovery across the biennial projection period. The Arkansas economy displays less volatility than a majority of states and especially those hit harder in the recession with greater recovery rates now. Job growth is improving in recent observations from the start of Fiscal 2013 and unemployment measures are moving down like the nation while maintaining an approximately one percent lower rate than the national average. Measures of net private sector employment growth are encouraging overall and further gains are expected as the economic expansion broadens to hard-hit sectors. Although the Arkansas economy exited recession and displayed greater stability across the economic cycle, considerable risk remains as outlined in a host of research statements and policy moves by the Federal Reserve.

The list of risk factors for the forecast is significant. They range from international risk of global economic slowdown to the uncertainty of fiscal policy at the national level. Recession in the Eurozone economy is assumed in this forecast, but the full extent of ramifications for trade, corporate profits, and credit markets are not fully known. Energy commodity inflation in a weakened global economy would normally be favorable for consumers at both the household and industrial levels, but global tensions in major oil-producing regions are a continuing concern for markets. The Arkansas economy has been remarkably stable compared to most states in economic and fiscal comparisons, but it is subject to these uncertainties at the national and international levels. We have provided a conservative forecast recognizing this risk profile.

I have attempted to provide this information in a format that facilitates your work. A narrative summary of the revenue forecasts and tables for quick reference are included with this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "R. A. Weiss". The signature is fluid and cursive, with the first name "R" being particularly large and stylized.

Richard A. Weiss
Director

RAW/jps
Attachments (5)

STATE AND NATIONAL ECONOMIC AND REVENUE FORECASTS

The following sections summarize the economic outlook for the nation and Arkansas for the next two years with comments updating current year conditions. The Official Revenue Forecast for the 2013-2015 Biennium Forecast is included.

The revenue forecasts are conditionally based on the expected economic conditions in the state and nation as of October 2012. The U.S. and state economic forecasts were compiled from simulations representing structural economic modeling systems at IHS Global Insight, Inc., a national forecast provider. The Office of Economic Analysis and Tax Research, Office of the Director, DFA, prepared the general revenue forecast.

Economic and Revenue Estimates for Fiscal Year 2013

Summary of Economic and Revenue Estimates for FY 2013

- **FY 2013 U.S. Gross Domestic Product (Real Output).** This summary is based on the October 2012 baseline forecast of Global Insight, Inc. During FY 2013, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$13,683 billion, for an annual increase of \$232.6 billion or 1.7 percent. Two general measures of inflation indicate modest price gains during the year, stemming from weak conditions in a variety of markets. These consist of the Consumer Price Index (CPI) and the GDP price deflator, a measure of overall price inflation spanning consumers, businesses, and government. The Consumer Price Index is expected to increase 1.5 percent and the GDP price deflator is expected to rise by 1.8 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$15,944 billion, an increase of \$557.2 billion or 3.6 percent.
- **Average annual U.S. oil prices** are estimated at \$90.89 per barrel (domestic crude to refiners' price) in FY 2013 from the October forecast. Energy prices in general have been constrained by weak economic conditions but also supported by global tensions and investment programs. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2013 state nonfarm personal income** (the sum of wages and salaries, proprietor's income, rent, dividends, interest and transfer payments) is estimated at

\$103,670 million (current dollars), an increase of \$3,261.7 million or 3.2 percent over FY 2012.

- **FY 2013 state wage and salary disbursements** are estimated at \$48,714 million, an increase of \$1,451 million or 3.1 percent.
- **FY 2013 state payroll employment** is expected to reach a level of 1.181 million jobs in FY 2013, an increase of approximately 17,400 jobs or 1.5 percent.

FY 2013 Gross General Revenues

Gross general revenues are estimated at \$6,061.2 million, an increase from FY 2012 of \$137.0 million, or 2.3 percent.

Pursuant to Arkansas Code §19-5-202, the total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY2013 was set at 3.3 percent.

In addition to the usual deductions from gross general revenues, such as the Constitutional Officers Fund, the State Central Services Fund, and refunds of individual and corporate income taxes, the following trust fund is noted:

- **Act 1315 (1999) Educational Excellence Trust Fund.** Act 1315 (1999) established a benchmark of 14.14 percent which is applied against actual sales and use tax collections of the previous fiscal year. Under this formula, \$287.4 million will be distributed (net) in FY2013.

FY 2013 Net Available General Revenues

The net available forecast for FY 2013 is revised up from the Official General Revenue Forecast of December 1, 2011. Net available revenues are estimated at \$4,827.0 million, an increase of \$75.4 million or 1.6 percent compared to FY 2012.

FY 2013 revenues are expected to fund the allocations in the current Revenue Stabilization Law plus \$99.5 million of new surplus funds.

FY 2013 Selected Special Revenues:

- **FY 2013 Educational Adequacy Fund:** Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Effective with FY 2008, a portion of the six-cent per gallon dyed diesel tax is also deposited to the Educational Adequacy Fund to partially offset the revenue loss from exempting dyed diesel from sales tax.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. Estimate for FY 2013: \$448.5 million.

- **FY 2013 WorkForce 2000 (Special Corporate Income Taxes).** Act 1315 (1999) established a benchmark of 6.78 percent which will be applied against net corporate income tax collections in the previous fiscal year. Under this formula, \$26.5 million will be distributed in FY 2013.
- **FY 2013 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2013, the soft drink excise tax is forecast at \$46.4 million, representing a -1.0 percent decrease compared to FY 2012 collections.

Economic and Revenue Estimates for the 2013–2015 Biennium

Summary of Economic and Revenue Estimates for FY 2014

- **FY 2014 U.S. Gross Domestic Product (Real Output).** This summary is based on the October 2012 baseline forecast of IHS Global Insight, Inc. During FY 2014, the United States economy is expected to produce final goods and services valued in inflation-adjusted dollars at \$13,998 billion, an increase of \$314.3 billion or 2.3 percent. Two general measures of inflation indicate limited price pressures during the year. The Consumer Price Index is expected to increase 1.5 percent and the GDP price deflator is expected to rise by 1.5 percent.
- **U.S. gross domestic product in current dollars** is estimated at \$16,550 billion, an increase of \$605.8 billion or 3.8 percent over FY 2013.

- **Average annual U.S. oil prices** are estimated at \$86.64 per barrel (domestic crude for refiners) in FY2014. Gradual improvement in domestic macroeconomic and financial conditions will support limited upward price movement in addition to market adjustments in response to any dollar exchange weakness. Weekly and monthly price swings could vary widely around the annual averages.
- **FY 2014 state nonfarm personal income** is estimated at \$107,745 million (current dollars), an increase of \$4,075 million or 3.9 percent over FY 2013.
- **FY 2014 state wage and salary disbursements** are estimated at \$50,513 million, an increase of \$1,799 million or 3.7 percent. Total disbursements reflect the combined effects of net job growth, longer average work weeks, and any gains in wage rates, bonuses, or level of overtime pay rates.
- **FY 2014 state payroll employment** is expected to reach a level of 1.197 million jobs, an increase of approximately 16,190 jobs or 1.4 percent.

FY 2014 Gross General Revenues

Gross general revenues are estimated at \$6,216.7 million, an increase over FY 2013 of \$155.5 million, or 2.6 percent.

The total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY2014 is assumed to remain at 3.3 percent.

In addition to the usual deductions from gross general revenues, such as the Constitutional Officers Fund, the State Central Services Fund, and refunds of individual and corporate income taxes, the following trust fund is noted:

- **Act 1315 (1999) Educational Excellence Trust Fund.** Act 1315 (1999) established a benchmark of 14.14 percent which is applied against actual sales and use tax collections of the previous fiscal year. Under this formula, \$294.5 million is estimated to be distributed (net) in FY 2014.

FY 2014 Net Available General Revenues

Net available revenues are estimated at \$4,947.3 million, an increase of \$120.3 million or 2.5 percent compared to FY 2013.

FY 2014 Selected Special Revenues:

- **FY 2014 Educational Adequacy Fund:** Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%, effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Effective with FY 2008, a portion of the six-cent per gallon dyed diesel tax is also deposited to the Educational Adequacy Fund to partially offset the revenue loss from exempting dyed diesel from sales tax.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. Estimate for FY 2014: \$462.0 million.

- **FY 2014 WorkForce 2000 (Special Corporate Income Taxes).** Act 1315 (1999) established a benchmark of 6.78 percent which will be applied against net corporate income tax collections in the previous fiscal year. Under this formula, \$26.9 million is estimated to be distributed in FY 2014.
- **FY 2014 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2014, the soft drink excise tax is forecast at \$45.9 million, representing a -1.0 percent decrease compared to FY 2013 collections.

Summary of Economic and Revenue Estimates for FY 2015

- **FY 2015 U.S. Gross Domestic Product (Real Output).** During FY 2015, the United States economy is expected to produce final goods and services valued at \$14,472 billion in inflation-adjusted dollars, an increase of \$474.1 billion or 3.4 percent. The two inflation measures of consumer price index (CPI) and GDP price deflator are expected to gradually move up in response to recovery in the overall economy. The consumer price index (CPI) is expected to increase 1.8 percent and the GDP price deflator is expected to increase 1.6 percent in FY 2015.
- **U.S. gross domestic product in current dollars** is estimated at \$17,381 billion for FY 2015, an increase of \$831.2 billion or 5.0 percent.
- **Average annual U.S. oil prices** are estimated at \$81.59 per barrel (domestic crude for refiners price) in FY 2015. Oil price and domestic energy demand are expected to gradually decline over the biennium. Weekly and monthly price swings could vary widely around the annual averages.

- **FY 2015 state nonfarm personal income** will reach \$112,609 million (current dollars), an increase of \$4,863 million or 4.5 percent over FY 2014. Nonfarm income is expected to expand gradually in a low-inflation economic environment and limited national growth.
- **FY 2015 state wage and salary disbursements** are estimated at \$52,687 million, an increase of \$2,174 million or 4.3 percent.
- **FY 2015 state payroll employment** is estimated to grow from a level of 1.197 million jobs in FY 2014 to 1.217 million jobs in FY 2015. This represents an increase of approximately 20,100 jobs or 1.7 percent.

FY 2015 Gross General Revenues

The forecast for gross general revenues in FY 2015 is \$6,444.2 million, an increase of \$227.5 million or 3.7 percent over FY 2014.

The total fee deducted from general revenue for funding of the State Central Services Fund and Constitutional Officers Fund for FY2015 is assumed to remain at 3.3 percent.

In addition to the usual deductions from gross general revenues, such as the Constitutional Officers Fund, the State Central Services Fund, and refunds of individual and corporate income taxes, the following trust fund is noted:

- **Act 1315 (1999) Educational Excellence Trust Fund.** Act 1315 (1999) established a benchmark of 14.14 percent which is applied against actual sales and use tax collections of the previous fiscal year. Under this formula, an estimated \$304.1 million may be distributed (net) in FY 2015.

FY 2015 Net Available General Revenues

For FY 2015, net available general revenues are estimated at \$5,130.2 million, an increase of \$182.9 million or 3.7 percent over FY 2014.

FY 2015 Selected Special Revenues:

- **FY 2015 Educational Adequacy Fund:** Act 107 of the Second Extraordinary Session of 2003 increased the state sales and use tax rate from 5.125% to 6.0%,

effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate, effective for calendar years beginning January 1, 2004. Effective with FY 2008, a portion of the six-cent per gallon dyed diesel tax is also deposited to the Educational Adequacy Fund to partially offset the revenue loss from exempting dyed diesel from sales tax.

The additional revenues are deposited as special revenues to the Educational Adequacy Fund to be used to fulfill the financial obligations of the state to provide an adequate educational system. Estimate for FY 2015: \$480.1 million.

- **FY 2015 WorkForce 2000 (Special Corporate Income Taxes)** Act 1315 (1999) established a benchmark of 6.78 percent which will be applied against net corporate income tax collections in the previous fiscal year. Under this formula, an estimated \$27.3 million may be distributed (net) in FY 2015.
- **FY 2015 Soft Drink Excise Tax (Medicaid Program Trust Fund).** In FY 2015 the forecast is \$45.4 million, representing a -1.0 percent decrease compared to FY 2014.

**Office of the Director,
Economic Analysis and Tax Research,
Department of Finance and Administration
November 15, 2012**

OFFICIAL GENERAL REVENUE FORECAST
2013 - 2015 Biennium

Millions of Dollars

	11/15/12	FY 13		11/15/12	FY 14		11/15/12	FY 15	
	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH
INDIVIDUAL INCOME	2,953.5	58.3	2.0	3,053.7	100.2	3.4	3,176.0	122.3	4.0
CORPORATE INCOME	443.0	7.7	1.8	450.2	7.2	1.6	457.2	7.0	1.6
SALES AND USE	2,154.0	42.8	2.0	2,223.9	69.9	3.2	2,314.1	90.2	4.1
ALCOHOLIC BEVERAGE	52.2	1.4	2.8	53.0	0.8	1.5	53.9	0.9	1.7
TOBACCO	232.7	-7.2	-3.0	225.7	-7.0	-3.0	218.9	-6.8	-3.0
INSURANCE	112.4	13.1	13.2	101.6	-10.8	-9.6	114.8	13.2	13.0
RACING	3.1	-0.3	-8.2	3.0	-0.1	-3.2	2.9	-0.1	-3.3
GAMES OF SKILL	29.4	2.0	7.3	30.4	1.0	3.4	31.5	1.1	3.6
SEVERANCE	18.8	-4.2	-18.3	18.6	-0.2	-1.1	17.5	-1.1	-5.9
CORPORATE FRANCHISE	8.0	0.0	0.0	8.0	0.0	0.0	8.0	0.0	0.0
REAL ESTATE TRANSFER	2.6	0.0	-0.3	2.6	0.0	0.0	2.6	0.0	0.0
MISCELLANEOUS	51.5	23.3	82.9	46.0	-5.5	-10.7	46.8	0.8	1.7
TOTAL GROSS	6,061.2	137.0	2.3	6,216.7	155.5	2.6	6,444.2	227.5	3.7
LESS: SCS/COF	200.0	4.6	2.4	205.1	5.1	2.6	212.7	7.6	3.7
INDIVIDUAL REFUNDS	515.9	22.6	4.6	537.3	21.4	4.1	562.9	25.6	4.8
CORP REFUNDS	60.7	4.0	7.0	61.7	1.0	1.6	62.6	0.9	1.5
CLAIMS RESERVE	10.0	10.0	0.0	10.0	0.0	0.0	10.0	0.0	0.0
ECON DEV INCENTIVE	23.4	6.9	41.7	23.4	0.0	0.0	23.4	0.0	0.0
WATER/SEWER BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0
COLL SAVINGS BONDS	24.0	6.3	35.3	24.0	0.0	0.0	24.0	0.0	0.0
MLA CITY/CO TOURIST	2.8	-2.5	-46.9	2.8	0.0	0.0	2.8	0.0	0.0
EDUC EXCEL TRUST	287.4	7.4	2.6	294.5	7.1	2.5	304.1	9.6	3.3
DESEGREGATION	69.8	1.8	2.6	69.8	0.0	0.0	69.8	0.0	0.0
ELDERLY TRANSPORT	0.0	-0.2	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
EDUCATIONAL ADQCY	25.4	0.6	2.6	26.0	0.6	2.4	26.9	0.9	3.5
NET AVAILABLE	4,827.0	75.4	1.6	4,947.3	120.3	2.5	5,130.2	182.9	3.7
LESS: SURPLUS TO ALLOTMENT									
RESERVE FUND	99.5								
NET AVAILABLE DISTRIBUTION	4,727.5	121.6	2.6	4,947.3	219.8	4.6	5,130.2	182.9	3.7

PREPARED BY ECONOMIC ANALYSIS AND TAX RESEARCH, DFA
NET AVAILABLE ESTIMATE FOR FY13: 100% OF A

**ECONOMIC ASSUMPTIONS AND THE
OFFICIAL GENERAL REVENUE FORECAST
2013-2015 BIENNIUM**

Millions of Dollars	11/15/12	FY-13		11/15/12	FY-14		11/15/12	FY-15	
	Estimate	Increase	% CH	Estimate	Increase	% CH	Estimate	Increase	% CH
INDIVIDUAL INCOME TAX	2,953.5	58.3	2.0	3,053.7	100.2	3.4	3,176.0	122.3	4.0
INDIVIDUAL REFUNDS	<u>515.9</u>	<u>22.6</u>	<u>4.6</u>	<u>537.3</u>	<u>21.4</u>	<u>4.1</u>	<u>562.9</u>	<u>25.6</u>	<u>4.8</u>
NET INDIVIDUAL INCOME	2,437.6	35.7	1.5	2,516.4	78.8	3.2	2,613.1	96.7	3.8
CORPORATE INCOME TAX	443.0	7.7	1.8	450.2	7.2	1.6	457.2	7.0	1.6
CORPORATE REFUNDS	<u>60.7</u>	<u>4.0</u>	<u>7.0</u>	<u>61.7</u>	<u>1.0</u>	<u>1.6</u>	<u>62.6</u>	<u>0.9</u>	<u>1.5</u>
NET CORPORATE INCOME	382.3	3.8	1.0	388.5	6.2	1.6	394.6	6.1	1.6
SALES AND USE TAX	2,154.0	42.8	2.0	2,223.9	69.9	3.2	2,314.1	90.2	4.1
NET ECONOMIC TAX REVENUE	4,973.9	82.3	1.7	5,128.8	154.9	3.1	5,321.8	193.0	3.8
OTHER TAX REVENUE	<u>510.7</u>	<u>28.1</u>	<u>5.8</u>	<u>488.9</u>	<u>-21.8</u>	<u>-4.3</u>	<u>496.9</u>	<u>8.0</u>	<u>1.6</u>
GROSS GENERAL REVENUES	6,061.2	137.0	2.3	6,216.7	155.5	2.6	6,444.2	227.5	3.7
LESS: SCS/COF	200.0	4.6	2.4	205.1	5.1	2.6	212.7	7.6	3.7
INDIVIDUAL REFUNDS	515.9	22.6	4.6	537.3	21.4	4.1	562.9	25.6	4.8
CORPORATE REFUNDS	60.7	4.0	7.0	61.7	1.0	1.6	62.6	0.9	1.5
CLAIMS	10.0	10.0	0.0	10.0	0.0	0.0	10.0	0.0	0.0
ECON DEVEL INCENTIVE FUND	23.4	6.9	41.7	23.4	0.0	0.0	23.4	0.0	0.0
WATER/SEWER BONDS	14.8	0.0	0.0	14.8	0.0	0.0	14.8	0.0	0.0
MLA CITY/CO TOURIST	2.8	-2.5	-46.9	2.8	0.0	0.0	2.8	0.0	0.0
DESEGREGATION SETTLEMENT	69.8	1.8	2.6	69.8	0.0	0.0	69.8	0.0	0.0
EDUC EXCEL TRUST FUND	287.4	7.4	2.6	294.5	7.1	2.5	304.1	9.6	3.3
ELDERLY TRANSPORTATION	0.0	-0.2	-100.0	0.0	0.0	0.0	0.0	0.0	0.0
COLLEGE SAVINGS BONDS	24.0	6.3	35.3	24.0	0.0	0.0	24.0	0.0	0.0
EDUCATIONAL ADEQUACY	25.4	0.6	2.6	26.0	0.6	2.4	26.9	0.9	3.5
NET AVAILABLE	<u>4,827.0</u>	<u>75.4</u>	<u>1.6</u>	<u>4,947.3</u>	<u>120.3</u>	<u>2.5</u>	<u>5,130.2</u>	<u>182.9</u>	<u>3.7</u>
LESS: SURPLUS TO ALLOT. RESERVE	99.5								
NET AVAILABLE DISTRIBUTION	<u>4,727.5</u>	<u>121.6</u>	<u>2.6</u>	<u>4,947.3</u>	<u>219.8</u>	<u>4.6</u>	<u>5,130.2</u>	<u>182.9</u>	<u>3.7</u>
ECONOMIC ASSUMPTIONS	FY 2013			FY 2014			FY 2015		
U.S. Nominal GDP (Billion \$)	15,944.2	557.2	3.6	16,550.0	605.8	3.8	17,381.2	831.2	5.0
U.S. GDP (Billions 2005\$ Chain-Weight)	13,683.3	232.6	1.7	13,997.6	314.3	2.3	14,471.7	474.1	3.4
U.S. GDP Deflator (Chain-Wt, 2005=100)	116.5	2.1	1.8	118.2	1.7	1.5	120.1	1.9	1.6
U.S. CPI Price Index (1984=100)	231.0	3.4	1.5	234.5	3.5	1.5	238.6	4.1	1.8
OIL - Avg. Dom. Crude to Refinery (\$ per barrel)	90.9	-11.8	-11.5	86.6	-4.3	-4.7	81.6	-5.0	-5.8
AR. Net General Revenue (Million \$)	5,484.6	110.4	2.1	5,617.7	133.1	2.4	5,818.7	201.0	3.6
AR. Net GR % of Non-Farm Personal Income	5.3	-0.1	-1.2	5.2	-0.1	-1.4	5.2	0.0	-0.9
AR. Non-Farm Personal Income (Million \$)	103,670.0	3,261.7	3.2	107,745.1	4,075.1	3.9	112,608.5	4,863.4	4.5
AR. Wage & Salary Disbursements (Million \$)	48,714.1	1,451.1	3.1	50,512.7	1,798.6	3.7	52,686.9	2,174.3	4.3
AR. Non-Farm Proprietor Income (Million \$)	6,873.1	272.6	4.1	7,220.2	347.1	5.0	7,676.0	455.8	6.3
AR. Nominal GSP (Million \$)	111,902.8	3,867.2	3.6	115,772.6	3,869.8	3.5	121,331.3	5,558.7	4.8
AR. Payroll Employment (Thousands)	1,180.7	17.4	1.5	1,196.9	16.2	1.4	1,217.0	20.1	1.7
AR. Manufacturing Employment (Thousands)	157.5	1.2	0.8	160.7	3.2	2.0	165.0	4.3	2.7
AR. New Car/Light Truck registrations (Thous.)	119.8	8.9	8.0	128.1	8.4	7.0	132.9	4.7	3.7
AR. Population (Thousands)	2,970.6	21.1	0.7	2,993.5	22.8	0.8	3,017.1	23.6	0.8
AR. Per Capita Income (\$)	35,310.0	971	2.8	36,450.9	1,141	3.2	37,756.5	1,306	3.6
AR. Retail Sales (Million \$)	36,956.1	1,063.3	3.0	37,985.4	1,029.3	2.8	39,138.2	1,152.7	3.0

U.S. Summary: Global Insight, October 2012 Baseline
AR Forecast: Global Insight, July 2012 Baseline

GOVERNOR BEEBE'S PLAN TO REPEAL REMAINING STATE SALES TAX ON FOOD

- Governor Beebe proposes to eliminate the remaining state sales tax currently imposed on food and food ingredients, except for the 1/8-cent tax levied by voters in Amendment 75 of the Arkansas Constitution.
- This would reduce the state sales tax on food and food ingredients from 1.5% to 1/8%.
- Governor Beebe proposes to trigger this tax elimination when changes in state budget obligations occur.
- State law mandates that certain deductions must be made from net general revenue before distributing funds to state agencies.
- Under Governor Beebe's proposal, the State Chief Fiscal Officer will monitor select deductions on a monthly basis.
- If these deductions decline by \$35M or more for six (6) consecutive months, it will trigger the reduction in the sales tax on food.
- The tax reduction will take effect on the first day of the next calendar quarter, beginning at least 30 days after the Chief Fiscal Officer's determination.

POTENTIAL GENERAL REVENUE OBLIGATION REDUCTIONS THAT CAN TRIGGER A REPEAL OF THE STATE SALES TAX ON FOOD

- Disbursements by the Department of Education for desegregation expenses under any desegregation settlement agreement.
- Payments for bonds issued under the Arkansas Water, Water Disposal, and Pollution Abatement Facilities Financing Act of 2007.
- Payments for Arkansas College Savings Bonds.
- Payments for bonds issued under the Arkansas Higher Education Technology and Facility Improvement Act of 2005.
- Payments from the City-County Tourist Facilities Aid Fund.

STATE GENERAL REVENUE

2013 - 2015 AGENCY EXECUTIVE RECOMMENDATIONS

Fiscal Year 2014

Fiscal Year 2015

FUND ACCOUNTS	FY13 FORECAST	TOTAL				% INC. OVER FY13
		EXECUTIVE REC.	EXECUTIVE REC.	EXECUTIVE REC.	DIFFERENCE FY14 ER. VS. FY13 FRGST	
General Education	\$1,961,576,841	\$49,065,374	\$2,010,642,215	\$2,064,941,865	2.5%	
State Library	5,672,143	0	5,672,143	5,672,143	0.0%	
Workforce Education	32,284,224	0	32,284,224	32,284,224	0.0%	
PUBLIC SCHOOL FUND	\$1,999,533,208	\$49,065,374	\$2,048,598,582	\$2,102,898,232	2.5%	
GENERAL EDUCATION FUND						
Dept. of Education	\$15,471,687	\$883,677	\$16,578,345	\$16,587,878	0.1%	
Educational Facilities Partnership	34,828,951	0	34,828,951	34,828,951	0.0%	
Academic Facilities & Transportation	2,492,317	92,392	2,552,126	2,552,126	0.0%	
Educational Television	5,075,556	135,786	5,394,697	5,398,432	0.1%	
School for the Blind	6,110,288	110,493	6,454,446	6,460,275	0.1%	
School for the Deaf	10,457,470	104,463	10,870,583	10,875,424	0.0%	
State Library	3,345,374	202,007	3,616,714	3,616,959	0.0%	
Dept. of Career Education	3,341,028	348,088	3,756,233	3,710,773	-1.2%	
Rehabilitation Services	12,953,772	(98,448)	13,212,007	13,261,785	0.4%	
Subtotal - General Education	\$94,076,443	\$1,778,458	\$97,264,102	\$97,292,603	0.0%	
Technical Institutes:						
Crowley's Ridge TI	\$2,498,384	\$47,638	\$2,669,014	\$2,671,624	0.1%	
Northwest TI	2,908,129	58,383	3,105,325	3,107,551	0.1%	
Riverside VTS	2,226,907	35,890	2,313,647	2,315,015	0.1%	
Subtotal - Technical Institutes	\$7,633,420	\$141,911	\$8,087,986	\$8,094,190	0.1%	
TOTAL GENERAL ED. FUND	\$101,709,864	\$1,920,369	\$105,352,088	\$105,386,793	0.0%	
HUMAN SERVICES FUND						
DHS-Administration	\$15,637,721	\$166,887	\$16,182,992	\$16,189,017	0.0%	
Aging and Adult Services	17,391,126	140,020	17,675,570	17,678,664	0.0%	
Children & Family Services	49,511,800	170,212	49,467,320	49,473,578	0.0%	
Child Care/Early Childhood Ed.	563,454	8,875	1,175,434	1,175,882	0.0%	
Youth Services	48,255,346	57,952	48,257,072	48,258,568	0.0%	
Devel. Disab. Services	61,773,664	3,710,219	66,208,702	66,376,228	0.3%	
Medical Services	4,958,217	58,234	5,092,024	5,094,291	0.0%	
DHS-Grants*	805,960,522	90,000,000	895,960,522	1,027,960,522	14.7%	
Behavioral Health	78,502,870	3,871,277	83,010,169	83,024,095	0.0%	
Services for the Blind	1,880,943	6,497	1,901,644	1,902,128	0.0%	
County Operations	47,191,028	538,654	48,811,789	48,835,295	0.0%	
TOTAL HUMAN SERVICES	\$1,131,626,691	\$98,728,827	\$1,233,743,238	\$1,365,968,268	10.7%	

STATE GENERAL REVENUE 2013 - 2015 AGENCY EXECUTIVE RECOMMENDATIONS

Fiscal Year 2014

Fiscal Year 2015

FUND ACCOUNTS	FY13 FORECAST	TOTAL					% INC. OVER FY13
		BASE LEVEL	EXECUTIVE REC.	EXECUTIVE REC.	DIFFERENCE FY14 ER. VS. FY13 FRGST	OVER FY14	
STATE GENERAL GOV'T FUND							
Dept. of Ark. Heritage	\$6,203,610	\$6,405,925	\$215,658	\$6,621,583	\$417,973	6.7%	
Department of Agriculture	15,851,863	16,249,015	1,645,467	\$17,894,482	2,042,619	12.9%	
Dept. of Labor	3,005,407	3,151,763	57,023	3,208,786	203,379	6.8%	
Dept. of Higher Education	3,291,808	3,291,808	148,920	3,440,728	148,920	4.5%	
Dept. of H.E.-Grants	34,491,806	34,491,806	415,660	34,907,466	415,660	1.2%	
Dept. of Economic Development	10,311,798	10,460,081	278,043	10,738,124	426,326	4.1%	
Dept. of Correction	298,842,000	310,007,534	3,678,195	313,685,729	14,843,729	5.0%	
Dept. of Community Correction	69,975,623	72,505,152	4,380,620	76,885,772	6,910,149	9.9%	
State Military Department	9,466,483	9,666,944	140,454	9,807,398	340,915	3.6%	
Dept. of Parks & Tourism	22,607,437	23,322,193	409,408	23,731,601	1,124,164	5.0%	
Dept. of Environmental Quality	4,210,633	4,345,521	64,737	4,410,258	199,625	4.7%	
Miscellaneous Agencies	56,788,049	62,229,670	2,707,964	64,937,634	8,149,585	14.4%	
TOTAL STATE GENERAL GOV'T	\$535,046,517	\$556,127,412	\$14,142,149	\$570,269,561	\$35,223,044	6.6%	
OTHER FUNDS							
County Aid	\$19,645,067	\$19,645,067	\$2,000,000	\$21,645,067	\$2,000,000	10.2%	
County Jail Reimbursement	9,453,607	9,453,607	0	9,453,607	0	0.0%	
Crime Information Center	3,681,833	3,727,388	57,679	3,785,067	103,234	2.8%	
Child Support Enforcement	12,951,328	12,951,328	166,393	13,117,721	166,393	1.3%	
Dept. of Health	90,838,467	90,973,265	592,803	91,566,068	727,601	0.8%	
Merit Adjustment Fund	0	0	0	0	0	0.0%	
Motor Vehicle Acquisition	0	0	0	0	0	0.0%	
Municipal Aid	27,372,099	27,372,099	2,000,000	29,372,099	2,000,000	7.3%	
State Police	62,293,971	64,781,579	2,141,692	66,923,271	4,629,300	7.4%	
Dept. of Workforce Services-TANF	3,775,642	3,901,924	0	3,901,924	126,282	3.3%	
TOTAL OTHER FUNDS	\$230,012,014	\$232,806,257	\$6,958,567	\$239,764,824	\$9,752,810	4.2%	
INSTITUTIONS OF HIGHER EDUCATION - Four Year Institutions:							
Arkansas State University	\$56,856,765	\$56,856,765	\$1,493,933	\$58,350,698	\$1,493,933	2.6%	
Arkansas Tech University	31,535,222	31,535,222	405,518	31,940,740	405,518	1.3%	
Henderson State University	18,713,847	18,713,847	0	18,713,847	0	0.0%	
Southern Arkansas University	15,449,575	15,449,575	0	15,449,575	0	0.0%	
UA-Fayetteville	116,761,613	116,761,613	3,055,239	119,816,852	3,055,239	2.6%	
UA - Archeological Survey	2,327,380	2,327,380	0	2,327,380	0	0.0%	
UA - Agriculture	62,800,138	62,800,138	0	62,800,138	0	0.0%	
UA - Clinton School	2,295,575	2,295,575	0	2,295,575	0	0.0%	
UA - Criminal Justice Institute	1,825,769	1,825,769	0	1,825,769	0	0.0%	
UA - Research & Ed. Optical Net.	1,113,015	1,113,015	0	1,113,015	0	0.0%	

STATE GENERAL REVENUE

2013 - 2015 AGENCY EXECUTIVE RECOMMENDATIONS

FUND ACCOUNTS	FY13 FORECAST	Fiscal Year 2014						Fiscal Year 2015					
		EXECUTIVE		TOTAL		DIFFERENCE		EXECUTIVE		TOTAL		DIFFERENCE	
		BASE LEVEL	REC.	EXECUTIVE	REC.	FY14 ER. VS. FY13	% INC. OVER FY13	BASE LEVEL	REC.	EXECUTIVE	REC.	FY14 ER. VS. FY15 ER.	% INC. OVER FY14
U of A - Ft. Smith	20,245,166	20,245,166	169,925	20,415,091	169,925	0	0.0%	20,245,166	169,925	20,415,091	0	0	0.0%
UA-Little Rock	59,841,915	59,841,915	414,262	60,256,177	414,262	0	0.7%	59,841,915	414,262	60,256,177	0	0	0.0%
UA-Medical Sciences	95,656,661	95,656,661	1,000,000	96,656,661	1,000,000	0	1.0%	95,656,661	1,000,000	96,656,661	0	0	0.0%
UAMS - Child Abuse/Rape/Domestic V	735,000	735,000	0	735,000	0	0	0.0%	735,000	0	735,000	0	0	0.0%
UAMS - Pediatrics/Psychiatric Researc	1,950,000	1,950,000	0	1,950,000	0	0	0.0%	1,950,000	0	1,950,000	0	0	0.0%
UAMS - Child Safety Center	720,588	720,588	0	720,588	0	0	0.0%	720,588	0	720,588	0	0	0.0%
UAMS - Indigent Care	5,342,181	5,342,181	0	5,342,181	0	0	0.0%	5,342,181	0	5,342,181	0	0	0.0%
UA-Monticello	15,832,510	15,832,510	0	15,832,510	0	0	0.0%	15,832,510	0	15,832,510	0	0	0.0%
UA-Pine Bluff	25,229,737	25,229,737	0	25,229,737	0	0	0.0%	25,229,737	0	25,229,737	0	0	0.0%
University of Central Arkansas	52,284,021	52,284,021	363,157	52,647,178	363,157	0	0.7%	52,284,021	363,157	52,647,178	0	0	0.0%
Subtotal - 4 Year Institutions	\$587,516,679	\$587,516,679	\$6,902,034	\$594,418,713	\$6,902,034	\$6,902,034	1.2%	\$587,516,679	\$6,902,034	\$594,418,713	\$0	\$0	0.0%
INSTITUTIONS OF HIGHER EDUCATION - Two Year Institutions:													
Arkansas Northeastern College	\$8,577,052	\$8,577,052	\$0	\$8,577,052	\$0	0	0.0%	\$8,577,052	\$0	\$8,577,052	\$0	\$0	0.0%
Arkansas State University - Beebe	12,044,916	12,044,916	0	12,044,916	0	0	0.0%	12,044,916	0	12,044,916	0	0	0.0%
Arkansas State Univ.-Mt. Home	3,582,223	3,582,223	65,887	3,648,110	65,887	0	1.8%	3,582,223	65,887	3,648,110	0	0	0.0%
Arkansas State Univ. - Newport	5,992,293	5,992,293	0	5,992,293	0	0	0.0%	5,992,293	0	5,992,293	0	0	0.0%
Cossatot C C of the UA	3,351,626	3,351,626	44,176	3,395,802	44,176	0	1.3%	3,351,626	44,176	3,395,802	0	0	0.0%
East Arkansas Cmty. College	5,788,058	5,788,058	0	5,788,058	0	0	0.0%	5,788,058	0	5,788,058	0	0	0.0%
Mid-South Cmty. College	3,818,117	3,818,117	39,890	3,858,007	39,890	0	1.0%	3,818,117	39,890	3,858,007	0	0	0.0%
Mid-South - ADTEC	0	0	1,000,000	1,000,000	1,000,000	0	100.0%	0	1,000,000	1,000,000	0	0	0.0%
National Park Cmty. College	8,943,803	8,943,803	102,686	9,046,489	102,686	0	1.1%	8,943,803	102,686	9,046,489	0	0	0.0%
North Arkansas College	7,966,091	7,966,091	873	7,966,964	873	0	0.0%	7,966,091	873	7,966,964	0	0	0.0%
NorthWest Arkansas Cmty. College	10,084,563	10,084,563	534,639	10,619,202	534,639	0	5.3%	10,084,563	534,639	10,619,202	0	0	0.0%
Phillips Cmty. College of the UA	9,063,088	9,063,088	0	9,063,088	0	0	0.0%	9,063,088	0	9,063,088	0	0	0.0%
Rich Mountain Cmty. College	3,201,250	3,201,250	5,619	3,206,869	5,619	0	0.2%	3,201,250	5,619	3,206,869	0	0	0.0%
Southern Ark. University - Tech	5,639,168	5,639,168	66,343	5,705,511	66,343	0	1.2%	5,639,168	66,343	5,705,511	0	0	0.0%
SAU-Tech-Envir. Control Center	368,404	368,404	0	368,404	0	0	0.0%	368,404	0	368,404	0	0	0.0%
SAU-Tech-Fire Training Academy	1,651,221	1,651,221	0	1,651,221	0	0	0.0%	1,651,221	0	1,651,221	0	0	0.0%
South Arkansas Cmty. College	5,994,316	5,994,316	39,991	6,034,307	39,991	0	0.7%	5,994,316	39,991	6,034,307	0	0	0.0%
U of A - Cmty. College at Batesville	4,050,586	4,050,586	80,475	4,131,061	80,475	0	2.0%	4,050,586	80,475	4,131,061	0	0	0.0%
U of A - Cmty. College at Hope	4,491,997	4,491,997	0	4,491,997	0	0	0.0%	4,491,997	0	4,491,997	0	0	0.0%
U of A - Cmty. College at Morrilton	4,787,010	4,787,010	235,145	5,022,155	235,145	0	4.9%	4,787,010	235,145	5,022,155	0	0	0.0%
Subtotal - 2 Year Institutions	\$109,395,782	\$109,395,782	\$2,215,724	\$111,611,506	\$2,215,724	\$2,215,724	2.0%	\$109,395,782	\$2,215,724	\$111,611,506	\$0	\$0	0.0%

STATE GENERAL REVENUE
2013 - 2015 AGENCY EXECUTIVE RECOMMENDATIONS

		Fiscal Year 2014					Fiscal Year 2015				
FUND ACCOUNTS	FY13 FORECAST	EXECUTIVE		TOTAL		% INC. OVER FY13	EXECUTIVE		TOTAL		% INC. OVER FY14
		BASE LEVEL	REC.	EXECUTIVE REC.	EXECUTIVE REC.		BASE LEVEL	REC.	EXECUTIVE REC.	EXECUTIVE REC.	
INSTITUTIONS OF HIGHER EDUCATION - Technical Colleges:											
		\$6,049,404	\$64,112	\$6,113,516	\$64,112	1.1%		\$6,049,404	\$64,112	\$6,113,516	0.0%
		3,527,261	0	3,527,261	0	0.0%		3,527,261	0	3,527,261	0.0%
		2,988,694	137,781	3,126,475	137,781	4.6%		2,988,694	137,781	3,126,475	0.0%
		14,457,088	680,349	15,137,437	680,349	4.7%		14,457,088	680,349	15,137,437	0.0%
		5,636,798	0	5,636,798	0	0.0%		5,636,798	0	5,636,798	0.0%
		\$32,659,245	\$882,242	\$33,541,487	\$882,242	2.7%		\$32,659,245	\$882,242	\$33,541,487	0.0%
		\$729,571,706	\$10,000,000	\$739,571,706	10,000,000	1.4%		\$729,571,706	\$10,000,000	\$739,571,706	0.0%
		\$4,756,484,713	\$180,815,286	\$4,937,300,000	\$209,800,000	4.4%		\$4,752,853,645	\$367,346,354	\$5,120,200,000	3.7%
		\$4,727,500,000		\$4,947,300,000	\$219,800,000	4.6%		\$5,130,200,000		\$182,900,000	3.7%
				(\$10,000,000)						(\$10,000,000)	
				\$4,937,300,000						\$5,120,200,000	
				\$0						\$0	

The Executive Recommendation provides for inclusion of a 2% COLA for each agency for FY2014. A determination for a FY2015 COLA will be made during the 89th Fiscal Session.

* In addition to the amounts proposed in the Governor's Balanced Budget, the Executive Recommendation provides for \$70 million per year for Medicaid to be funded from the General Improvement Fund.

prepared by DFA-Office of Budget 11.13.12